

Message Text

UNCLASSIFIED

PAGE 01 BONN 11872 01 OF 03 191619Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 PA-02 PRS-01 /105 W
-----116635 191722Z /42

R 191559Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9919
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 11872

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 18)

REF.: BONN 10749, BONN 11196, BONN 8965, BONN 11679

1. FOREIGN EXCHANGE MARKETS:
THE DOLLAR WEAKENED FURTHER ON GERMAN FOREIGN EXCHANGE
MARKETS AT THE END OF THE PERIOD UNDER REVIEW. ON
JULY 19 THE DOLLAR WAS FIXED AT \$1 EQUALS DM 2.2628 -
AN ALL TIME LOW ON THE FRANKFURT CURRENCY EXCHANGE -
FOLLOWING A \$1 EQUALS DM 2.2804 FIXING ON MONDAY.
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 11872 01 OF 03 191619Z

FOREX DEALERS, ACCORDING TO FINANCIAL PRESS REPORTING,
WERE SOMEWHAT PERPLEXED WITH THE RAPID DROP SINCE THEY
HAD NO EVIDENCE THAT DOLLARS WERE BEING DUMPED ON THE
MARKET. FRANKFURT SPOT AND FORWARD DOLLAR RATES DURING
THE PERIOD UNDER REVIEW DEVELOPED AS FOLLOWS:

FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)
 OPENING FIXING CLOSING ONE-MONTH THREE-MOS

JULY 12	2.2840	2.2890	2.2900	-L.8	-2.0
13	2.2800	2.2793	2.2800	-1.4	-1.8
14	2.2845	2.2840	2.2912	-1.7	-2.0
15	2.2915	2.2885	2.2830	-1.9	-1.9
18	2.2770	2.2804	2.2683	-1.8	-2.0
19	2.2650	2.2628	N.A.	N.A.	N.A.

2. DM 171.3 BILLION FEDERAL BUDGET FOR 1977 READY TO BE
 SIGNED INTO LAW:

THE 1977 FEDERAL BUDGET, APPROVED BY THE BUNDESTAG ON
 JUNE 24 (SEE BONN 10749), PASSED THE BUNDESRAT ON JULY
 15 AND IS NOW READY TO BE SIGNED INTO LAW. THE APPROVED
 BUDGET PROVIDES FOR EXPENDITURES OF DM 171.3 BILLION,
 UP 5.9 PERCENT OVER ACTUAL 1976 OUTLAYS, AND AUTHORIZES
 NET BORROWING OF DM 20.7 BILLION. IN 1976, A DM 25.8
 BILLION DEFICIT WAS INCURRED. EXPENDITURES OF THE
 DEFENSE MINISTRY THIS YEAR ARE BUDGETED TO EXCEED 1976
 RESULTS BY 1.5 PERCENT FOR A TOTAL OF DM 32.87 BILLION.
 THIS AMOUNTS TO 19.2 PERCENT OF TOTAL FEDERAL OUTLAYS
 APPROVED FOR THIS YEAR AND IS THE EQUIVALENT OF SOME
 2.7 PERCENT OF ANTICIPATED 1977 FRG GNP. THE DEVELOP-
 MENT AID MINISTRY'S BUDGET PROVIDES FOR 1977 OUTLAYS
 OF DM 3.22 BILLION. THIS IS 5.6 PERCENT MORE THAN
 UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 11872 01 OF 03 191619Z

ACTUAL 1976 EXPENDITURES AND AMOUNTS TO 1.9 PERCENT
 AND 0.27 PERCENT, RESPECTIVELY, OF 1977 APPROVED FEDERAL
 EXPENDITURE TOTALS AND ESTIMATED GNP.

3. TVA INCREASE EFFECTIVE 1978 APPROVED BY LEGISLATORS:
 THE GOVERNMENT'S SOFTENED 1977 TAX PACKAGE, APPROVED
 BY THE BUNDESTAG ON JUNE 16, HAS NOW PASSED THE LAST
 HURDLE. IT WAS APPROVED BY THE OPPOSITION-CONTROLLED
 BUNDESRAT ON JULY 15, FOLLOWING AGREEMENT ON THE DI-
 VISION OF VALUE-ADDED TAX REVENUES BETWEEN THE BUND
 AND THE LAENDER IN 1977 AND 1978 (SEE BONN 11196).
 THUS, THE TVA TAX RATE WILL BE RAISED FROM 11 PERCENT
 TO 12 PERCENT EFFECTIVE JANUARY 1, 1978. THE RESULTING
 PUBLIC SECTOR REVENUE GAIN WILL BE FULLY OFFSET BY
 LOSSES THROUGH TAX RELIEF ELSEWHERE, INCLUDING A RE-
 DUCATION OF PROPERTY TAX RATES, INCREASED EXEMPTIONS

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 11872 02 OF 03 191629Z

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-02 PRS-01 /105 W

-----116779 191723Z /42

R 191559Z JUL 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9920

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 03 BONN 11872

UNDER BOTH THE PERSONAL INCOME AND TRADE TAX SCHEMES,
AND HIGHER CHILDREN ALLOWANCES (SEE BONN 8965).

4. MONEY MARKET:

WITH THE LOWERING OF THE LOMBARD AND SPECIAL REDISCOUNT
FACILITY RATES, ANNOUNCED AT LAST THURSDAY'S CENTRAL
BANK COUNCIL MEETING, MONEY MARKET RATES IN THE FRG HAVE
EASED. THE CALL MONEY RATE FOLLOWED THE LOMBARD RATE
DOWN TO ABOUT 4.0 PERCENT AND ONE AND THREE MONTH
MONEY RATES HAVE ALSO FALLEN. FOR THE PERIOD JULY 12-
18, FRANKFURT INTERBANK RATES WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 11872 02 OF 03 191629Z

JULY 12 4.5 4.35 4.35

13 4.5 4.35 4.35

14 4.5 4.35 4.35

15	4.0-4.1	4.10	4.20
18	4.0-4.1	4.10	4.20

5. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JULY 1-7 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.3 BILLION TO DM 85.3 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 106 MILLION WHILE FOREIGN LIABILITIES DECLINED BY ABOUT DM 200 MILLION.

6. BANK LIQUIDITY:

IN THE SAME TIME SPAN, BANKS WERE ABLE TO REDUCE SUBSTANTIALLY THEIR CENTRAL BANK INDEBTEDNESS, BY DM 4.9 BILLION TO DM 20.9 BILLION. BANKS REPAID DM 8.3 BILLION IN LOMBARD BORROWINGS TO REDUCE THE OUTSTANDING BALANCE TO DM 0.6 BILLION. REDISCOUNT BORROWINGS INCREASED HOWEVER, BY DM 0.7 BILLION TO DM 16.1 BILLION AND BANKS TOOK UP DM 2.8 BILLION FROM THE NEWLY-OPENED SPECIAL REDISCOUNT FACILITY (SEE BONN 11679). HOWEVER, BANKS WERE FORCED TO OFFSET THIS BY REDUCING RESERVE HOLDINGS AT THE BUNDESBANK BY DM 4.1 BILLION. ON AVERAGE PER DAY, BANKS HELD RESERVES OF DM 42.3 BILLION FROM JULY 1 THROUGH JULY 7.

THE MAJOR FACTOR INCREASING LIQUIDITY WAS THE REDUCTION BY DM 8.3 BILLION IN OFFICIAL ASSETS HELD AT THE BUNDESBANK. A REDUCTION IN BUNDESPOST ASSETS HELD AT THE BUNDESBANK OF DM 6.9 BILLION COUPLED WITH REDUCTIONS IN FEDERAL GOVERNMENT ASSETS OF DM 1.0 BILLION AND LOMBARD ASSETS OF DM 0.7 BILLION ACCOUNTED FOR MOST OF THE CHANGE. ALSO INCREASING LIQUIDITY WAS THE ABOVE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 11872 02 OF 03 191629Z

MENTIONED INCREASE IN BUNDESBANK MONETARY RESERVES AND BUNDESBANK LOANS TO PUBLIC AUTHORITIES OF DM 0.8 BILLION.

REDUCING LIQUIDITY WAS AN INCREASE IN CURRENCY IN CIRCULATION OF DM 1.3 BILLION (UNUSUAL IN THE FIRST WEEK OF A MONTH). OTHER, UNIDENTIFIED, FACTORS REDUCED LIQUIDITY BY DM 7.2 BILLION.

7. BOND MARKET:

CONDITIONS REMAINED BASICALLY UNCHANGED ON THE GERMAN BOND MARKET DURING THE PERIOD ALTHOUGH SOME EASING WAS SEEN IN THE SHORTER MATURITIES. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 11872 03 OF 03 191630Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 PA-02 PRS-01 /105 W
-----116799 191724Z /42

R 191559Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9921
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 03 OF 03 BONN 11872

(YEARS) 1 3 5 6 8 10

JULY 17	4.50	5.40	5.95	6.10	6.45	6.65
JULY 10	4.60	5.50	6.00	6.15	6.50	6.65

CONCERNING FOREIGN DM BOND ISSUES, THE KINGDOM OF NOR-
WAY HAS SOLD DM 200 MILLION OF 5 YEAR BONDS THROUGH A
BANKING CONSORTIUM LED BY THE DEUTSCHE BANK. THE
BONDS WERE SOLD AT 100.25 WITH A NOMINAL INTEREST RATE
OF 5.75 PERCENT.

THE EUROPEAN INVESTMENT BANK IS PLANNING A DM 150
MILLION ISSUE WITH A PROBABLE INTEREST RATE OF 6.5
PERCENT AND MATURITY OF 12 YEARS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 11872 03 OF 03 191630Z

SPAIN IS PREPARING A DM 200 MILLION BOND ISSUE THROUGH A BANKING CONSORTIUM LED BY DRESDNER BANK. CONDITIONS OF THE ISSUE ARE NOT YET KNOWN BUT THE MARKET SPECULATION IS THAT THE ISSUE WILL BE FOR 7 YEARS AT 7 PERCENT.

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL (1))

	MARCH	APRIL	MAY	JUNE
--	-------	-------	-----	------

INDUSTRIAL PRO-

DUCER PRICES	3.7	3.4	3.0	2.7
--------------	-----	-----	-----	-----

INSOLVENCIES

PERCENT CHANGE	14.8	-13.2	-	-
----------------	------	-------	---	---

TOTAL	906	738	-	-
-------	-----	-----	---	---

(1) UNLESS INDICATED OTHERWISE

STOESSEL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 19-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN11872
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: USOECD IS AN AD ALSO
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770256-1128
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770745/aaaabmcb.tel
Line Count: 300
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f0711d68-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BONN 10749, 77 BONN 11196, 77 BONN 8965, 77 BONN 11679
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1823282
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 18)
TAGS: EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f0711d68-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009